LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7365 **DATE PREPARED:** Feb 9, 2001
BILL NUMBER: HB 2084 **BILL AMENDED:**

SUBJECT: Local Government Fiscal Flexibility.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Adoption of Local Taxes*- This bill authorizes counties, cities, and towns to adopt local income taxes, local food and beverage taxes, and local sales taxes.

County Tax Councils- It establishes county tax councils consisting of the county fiscal body and the fiscal bodies of each city and town located in a county. It authorizes councils to adopt local taxes to be distributed to each of the units represented on each county tax council. It provides that the local taxes authorized are in addition to other taxes authorized under Indiana law.

Use of Local Tax Revenue- It provides that the authorized taxes may be used to reduce the unit's property tax levy, to provide targeted property tax relief, to pay debt service or lease rentals, to pay the costs of capital projects, to use as operating revenue, to pay pension liabilities, or to use for any other purpose that the fiscal body determines to be in the best interests of the unit.

Effective Date: July 1, 2001.

Explanation of State Expenditures: The Department of State Revenue (the Department) would experience an increase in administrative expenses regarding the provisions of this bill. Additional expenses would result from the administration of the three local taxes mentioned above. However, the Department's costs would be defrayed by an administrative fee of 1% of the total revenues derived by all units from the imposition of each respective tax. (The Department would be allowed to use the fee only to pay for the administrative costs of the Department incurred in the collection and distribution of each tax.) The specific effects are currently indeterminable and would depend upon the size and number of units adopting one or more of the three taxes.

The State Budget Agency could also experience an increase in administrative expenses regarding the estimation of certified distributions (working with the Department) made to units adopting the local income tax. The specific effects are currently indeterminable and would depend upon the size and number of each unit adopting the local income tax.

The Treasurer and Auditor of State could also experience an indeterminable increase in administrative expenses regarding the payment of the three local taxes. The specific effects would vary as with the Department of Revenue and the Budget Agency.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties, cities, and towns could experience an indeterminable increase in local revenues due to the provisions of this bill. The specific impact would vary between units, and would depend upon local action.

Units would be able to receive additional revenues through a combination of the following mechanisms: 1) the imposition of one or more of the three taxes by the unit itself; or 2) the imposition of one or more of the three taxes by the unit's county council. (A county council would not be allowed to propose an ordinance to adopt a specific local tax in a given year if the tax has already been adopted by one of its own units. Nor would a unit be able to do so if a tax has already been adopted by its respective county council.)

Local Units- A local unit of government would be allowed to adopt and impose one or more of the following local taxes: 1) an income tax; 2) a food and beverage tax; and 3) a sales tax at a rate of 0.5% on its adjusted gross income, its gross food and beverage retail income, and its gross merchant retail income. (Once adopted, units would be allowed to propose an ordinance to decrease or repeal the established tax rates.)

County Councils- County councils would be allowed to adopt and impose one or more of the following local taxes: 1) an income tax; 2) a food and beverage tax; and 3) a sales tax at an unspecified rate to be distributed to each of the units represented on a county council (based on either maximum levy, population, or assessed value percentages). County councils would have 100 votes assigned to them, respectively, which would be allocated to all units based on population percentages. (Votes would be cast to determine whether or not a county council should adopt, decrease, or rescind a local tax.)

Revenues- Local ordinances would need to be adopted after January 1 but before August 1 of a given year (either by a unit or by a county council). Once adopted, local taxes would not take effect until the January of the following year. Since this bill takes effect at the beginning of FY 2002, the earliest date at which units could receive tax revenues would be in CY 2003.

The following table represents an estimate (based on the State's most recent revenue forecast of 12/19/2000, and on the *U.S. Census Bureau*, *1997 Economic Census*) of what Indiana's 584 cities and towns, as well as Indiana's 92 counties, would have received in FY 2002 had they adopted each of the three local taxes at a rate of 0.5% in accordance with this bill. (This estimate assumes that all units would have adopted each of the three local taxes.)

Tax	0.5% Rate
Local Income Tax	$626.6 M*
Local Food & Beverage Tax	$ 38.4 M**
Local Sales Tax	$394.2 M
TOTAL	**$1,059.2 M**

*Under current law, 53 counties have adopted a County Adjusted Gross Income Tax (CAGIT); 25 counties have adopted a County Option Income Tax (COIT); and 58 counties have adopted a County Economic Development Income Tax (CEDIT), generating Local Option Income Tax (LOIT) revenues for various units within these respective counties. For FY 2001, certified distributions to adopting counties for CAGIT, COIT, and CEDIT, respectively, totaled $308,062,169, $437,437,293, and $140,547,205. (Units of adopting counties would be allowed to adopt an additional local income tax in accordance with the provisions of this bill.)

**Under current law, a combination of 11 towns and counties have adopted a local food and beverage tax at a 1% rate for a total of $25,901,891 in revenues for FY 2000. (These units would be allowed to adopt an additional food and beverage tax in accordance with the provisions of this bill.)

Local Income Tax Revenue- A special account within the state General Fund would be established for each unit that is a recipient of revenues from a local income tax. Revenue derived would be deposited into each unit's special account if the local income tax is imposed by the unit's fiscal body; or in the accounts of each unit within the county if the local income tax is imposed by a county tax council.

Local income tax revenue that is deposited in a unit's special account would be distributed to each unit during the ensuing calendar year. The amount to be distributed would equal the following: 1) the income tax revenue that the Department estimates will be received on behalf of the unit (or allocated to the unit) during the 12-month period beginning July 1 of the immediately preceding calendar year and ending June 30 of the ensuing calendar year.

Before June 16 of each year, the Department would estimate and certify to the fiscal officer of each unit that is a recipient of revenues from a local income tax the amount of revenue that will be collected from that unit (or the amount of revenue allocated to the unit) during the 12-month period beginning July 1 of that year and ending June 30 of the immediately succeeding year. The amount certified would be the unit's "certified distribution" for the ensuing calendar year.

One-twelfth of each unit's certified distribution for a calendar year would be distributed from its special account to the unit's fiscal officer on the first business day of each month of that calendar year. All distributions from a unit's special account would be on warrants issued by the Auditor of State to the Treasurer of the State ordering the appropriate payment.

Local Food & Beverage Tax- A unit's fiscal officer would be required to establish a local food and beverage tax revenue fund into which all amounts received monthly from the Treasurer of State would be deposited. Food and beverage taxes would be imposed, paid, and collected in the same manner that the State gross retail tax is imposed, paid and collected under current law. However, the return filed for the payment of local food and beverage taxes could be made on a separate return, or combined with the return filed for the payment of the State gross retail tax as prescribed by the Department.

The Department would be required to notify the fiscal officer of a unit that imposes a food and beverage tax (or the fiscal officer of each unit represented on the county tax council) of the tax amount to be paid to the unit. The amounts received from a food and beverage tax would be paid monthly by the Treasurer of State on warrants issued by the Auditor of State to the fiscal officer of adopting units (whether or not the unit or the county tax council adopted the local food and beverage tax).

Local Sales Tax- A unit's fiscal officer would be required to establish a local gross retail tax revenue fund into which all amounts received monthly from the Treasurer of State would be deposited. Local sales taxes would be imposed, paid, and collected in the same manner that the State sales tax is imposed, paid, and collected under current law. However, the return that is filed for the payment of the local sales tax could be made on a separate return, or combined with the return filed for the payment of the State sales tax as prescribed by the Department.

The Department would be required to notify the fiscal officer of a unit that imposes a sales tax (or the fiscal officer of each unit represented on the county tax council) of the tax amount to be paid to the unit. The amounts received from a sales tax would be paid monthly by the Treasurer of State on warrants issued by the Auditor of State to the fiscal officer of adopting units (whether or not the unit or the county tax council adopted the local sales tax).

Use of Revenues- Units would be allowed to treat tax revenue derived from the imposition of the three local taxes as additional revenue for the purpose of fixing its budget for the budget year during which the revenues are to be distributed to the unit. A unit may use tax revenues from the imposition of the local taxes for one or more of the following purposes: 1) reducing the unit's property tax levy; 2) providing targeted property tax relief; 3) paying debt service or lease rentals on bonds, leases, obligations, or other indebtedness; 4) paying the costs of any capital project; 5) creating operating revenue; 6) paying pension liabilities of the unit; or 7) applying tax revenues to any other purpose that the fiscal body determines to be in the best interests of the unit.

State Agencies Affected: Department of State Revenue; Treasurer; Auditor; and Budget Agency.

Local Agencies Affected: Counties; Cities; and Towns.

Information Sources: Local Government Data Base; Department of State Revenue.